

Instructions for Form 540 — California Resident Income Tax Return

These instructions are based on the Internal Revenue Code (IRC) as of **January 1, 2001**, and the California Revenue and Taxation Code (R&TC).

Before You Begin

You must complete your federal income tax return (Form 1040, 1040A, 1040EZ, or federal TeleFile Tax Record) before you begin your California Form 540. You will use information from your federal income tax return to complete your Form 540. Be sure to complete and mail Form 540 by April 15, 2003. If you cannot mail your return by the due date, see page 2.



You may qualify for the federal earned income credit. See page 2 for more information. There is no comparable state credit.

Step 1 — Name and Address

If there is a label on the front of your booklet, attach the label to your completed return. Make sure that the information on your label is correct. Cross out any errors and print the correct information.

If there is no label, print your first name(s), middle initial(s), and last name(s) and address in the spaces provided at the top of Form 540. See page 8, Helpful Hints, "Filling in your return."

If you lease a private mailbox (PMB) from a private business rather than a PO box from the United States Postal Service, include the box number in the field labeled "PMB no." in the address area.

Principal Business Activity Code

Enter the numeric principal business activity code from federal Schedule C, line B.

Step 1a — Social Security Number(s)

Enter your social security number(s) in the spaces provided. To protect your privacy, your social security number(s) are not printed on your label. If you file a joint return, enter the social security numbers in the same order as the names.

Note: If you do not have a social security number because you are a nonresident or resident alien for federal tax purposes, and the IRS issued you an Individual Taxpayer Identification Number (ITIN), enter the ITIN in the spaces for the social security number.

Step 2 — Filing Status

Fill in only one of the circles for line 1 through line 5. Be sure to enter the required additional information if you filled in the circle for line 3 or line 5.

You must use the same filing status for California that you used for your federal income tax return.

Exception: If you file a joint return for federal, you may file separately for California if either spouse was:

- An active member of the United States armed forces or any auxiliary military branch during 2002, or
- A nonresident for the entire year and had no income from California sources during 2002.

If you had no federal filing requirement, use the same filing status for California you would have used to file a federal income tax return.

Note: If you filed a joint return and either you or your spouse was a nonresident for 2002, you must file the Long or Short Form 540NR, California Nonresident or Part-year Resident Income Tax Return.

You Are Married and File a Separate Return: Enter your spouse's full name on line 3 and social security number in the space provided in "Step 1a."

Note: Community property rules apply to the division of income if you use the married filing separately status. For more information, get FTB Pub. 1031, Guidelines for Determining Resident Status and FTB Pub. 1051A, Guidelines for Married Filing Separate Returns. See "Order Forms and Publications" on page 68.

Head of Household

This filing status is for unmarried individuals who provide a home for a qualifying relative. Before you select this filing status, see the requirements and self-test for head of household beginning on page 24.

e-file and you can close this book now! The software you use to e-file will help you find out if you qualify to claim the head of household filing status. Most software also provides a questionnaire, 4803e, which will help verify your eligibility to the FTB. See www.ftb.ca.gov



Step 3 — Exemptions

Line 6 — Can be Claimed as a Dependent



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Fill in the circle on line 6 if your parent (or someone else) can claim you as a dependent on his or her tax return, even if he or she chooses not to.

Line 7 — Personal Exemptions

Did you fill in the circle on line 6?

No Follow the instructions on Form 540, line 7.

Yes Ignore the instructions on Form 540, line 7. Instead, enter in the box on line 7 the amount shown below for your filing status:

- Single or married filing separately, enter -0-;
- Head of household, enter -0-;
- Married filing jointly and both you and your spouse can be claimed as dependents, enter -0-; or
- Married filing jointly and only one spouse can be claimed as a dependent, enter 1.

Line 8 — Blind Exemptions

The first year you claim this exemption credit, you must attach a doctor's statement to the back of Form 540 indicating you or your spouse are visually impaired. You are visually impaired if you cannot see better than 20/200 while wearing glasses or contact lenses, or if your field of vision is not more than 20 degrees.

Caution: An individual who is someone else's dependent may not claim this credit.

Line 9 — Senior Exemptions

If you were 65 years of age or older by December 31, 2002*, you should claim an additional exemption credit on line 9. If you are married, each spouse 65 years of age or older should claim an additional credit. You may contribute all or part of this credit to the California Seniors Special Fund. See page 23 for information about these funds.

*If your 65th birthday is on January 1, 2003, you are considered to be age 65 on December 31, 2002.

Caution: An individual who is someone else's dependent may not claim this credit.

Line 10 — Dependent Exemptions

To claim an exemption credit for each of your dependents, write each dependent's name and relationship to you in the space provided. If additional space is needed, attach a schedule. The persons you list as dependents must be the same persons you listed as dependents on your federal income tax return. Multiply the number you entered by the pre-printed dollar amount and enter the result.

Line 11 — Enter the total dollar amount of all exemptions, personal and dependent.

Step 4 — Taxable Income

Refer to your completed federal income tax return to complete "Step 4."

Line 12 – State Wages

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Enter the total amount of your state wages from all states from each of your Form(s) W-2. This amount should be on Form W-2, box 16.

If you received wages and do not have a Form W-2, see "Attachments to your return" on page 8.

Line 14 – California Adjustments — Subtractions (from Schedule CA (540), line 35, column B)

If there are differences between your federal and California income or deductions, you must complete Schedule CA (540), California Adjustments — Residents. Follow the instructions for Schedule CA (540) beginning on page 38. Enter on this line the amount from Schedule CA (540), line 35, column B. If a negative amount, see Schedule CA (540), line 35 instructions, page 48.

Line 15 – Subtotal

Subtract the amount on line 14 from the amount on line 13. Enter the result on line 15. If the amount on line 13 is less than zero, combine the amounts on line 13 and line 14 and enter the result in parentheses. For example: "(12,325)."

Line 16 – California Adjustments — Additions (from Schedule CA (540), line 35, column C)

If there are differences between your federal and California income or deductions, you must complete Schedule CA (540), California Adjustments — Residents. Follow the instructions for Schedule CA (540) beginning on page 38. Enter on this line the amount from Schedule CA (540), line 35, column C. If a negative amount, see Schedule CA (540), line 35 instructions, page 48.

Line 18 – California Itemized Deductions or California Standard Deduction

You must decide whether to itemize your charitable contributions, medical expenses, interest paid, taxes, etc. or take the standard deduction. Your California income tax will be less if you take the **larger** of:

- Your California itemized deductions; or
- Your California standard deduction.

If you are married and file a separate return, you and your spouse must either both itemize your deductions or both take the standard deduction.

Itemized deductions. Figure your California itemized deductions by completing Schedule CA (540), Part II, line 36 through line 41. Enter the result on Form 540, line 18.

Note: If you did not itemize deductions on your federal income tax return but will itemize deductions for your California Form 540, first complete a federal Schedule A, Itemized Deductions. Then complete Schedule CA (540), Part II, line 36 through line 41.

Standard deduction. Find your standard deduction on the California Standard Deduction Chart For Most People, below. If you filled in the circle on Form 540, line 6, use the California Standard Deduction Worksheet For Dependents, on this page, instead.

California Standard Deduction Chart for Most People

Do not use this chart if your parent, or someone else, can claim you (or your spouse, if married) as a dependent on his or her tax return.

Your Filing Status	Enter On Line 18
1 – Single	\$3,004
2 – Married filing jointly	\$6,008
3 – Married filing separately	\$3,004
4 – Head of household	\$6,008
5 – Qualifying widow(er)	\$6,008

Note: The California standard deduction amounts are less than the federal standard deduction amounts.

California Standard Deduction Worksheet for Dependents

Use this worksheet only if your parent, or someone else, can claim you (or your spouse if married) as a dependent on his or her tax return.

1. Enter your earned income from: line 1 of the "Standard Deduction Worksheet for Dependents" in the instructions for federal Form 1040; Form 1040A; or from line A of the worksheet on the back of Form 1040EZ. If you used federal TeleFile, add \$250 to the total of your wages from all Form(s) W-2, box 1 and enter the result here 1 _____
2. Minimum standard deduction 2 \$750.00
3. Enter the **larger** of line 1 or line 2 here 3 _____
4. Enter the amount shown for your filing status:
 - Single or married filing separately, enter \$3,004
 - Married filing jointly, head of household, or qualifying widow(er), enter \$6,008
 } 4 _____
5. **Standard deduction.** Enter the **smaller** of line 3 or line 4 here and on Form 540, line 18 .. 5 _____

Step 5 — Tax

When you figure your tax, be sure to use the correct filing status and taxable income amount.

Line 20 – Tax

To figure your tax, use one of the following methods and fill in the matching circle on line 20:

- **Tax Table.** If your taxable income on line 19 is \$100,000 or less, you must use the tax table beginning on page 61. Be sure you use the correct filing status column in the tax table.
- **Tax Rate Schedules.** If your taxable income on line 19 is over \$100,000, you must use the tax rate schedules on page 66.
- **FTB 3800.** Generally, you must use form FTB 3800, Tax Computation for Children Under Age 14 with Investment Income, to figure the tax on a separate Form 540 for your child who was under age 14 on January 1, 2003, and who had more than \$1,500 of investment income. Attach form FTB 3800 to the child's Form 540.
- **FTB 3803.** If, as a parent, you elect to report your child's interest and dividend income of \$7,500 or less (but not less than \$750) on your return, complete form FTB 3803, Parents' Election to Report Child's Interest and Dividends. You must file a separate form FTB 3803 for each child whose income you elect to include on your Form 540. Add the amount of tax, if any, from each form FTB 3803, line 9, to the amount of your tax from the tax table or tax rate schedules and enter the result on Form 540, line 20. Attach form(s) FTB 3803 to your return.

Line 21 – Exemption Credits

Use your exemption credits to reduce your tax. If your federal adjusted gross income (AGI) on line 13 is more than the amount shown below for your filing status, your credits will be limited.

If your filing status is: Is Form 540, line 13 more than:

Single or married filing separately \$132,793

Married filing jointly or qualifying widow(er) \$265,589

Head of household \$199,192

Yes Complete the AGI Limitation Worksheet on the next page.

No Follow the instructions on Form 540, line 21.

AGI Limitation Worksheet

a	Enter the amount from Form 540, line 13	a	_____
b	Enter the amount for your filing status on line b: Single or married filing separately \$132,793 Married filing jointly or qualifying widow(er) \$265,589	b	_____
	Head of household \$199,192		
c	Subtract line b from line a	c	_____
d	Divide line c by \$2,500 (\$1,250 if married filing separately). Note: If the result is not a whole number, round it to the next higher whole number	d	_____
e	Multiply line d by \$6	e	_____
f	Add the numbers from the boxes on Form 540, line 7, line 8, and line 9 (not dollar amounts)	f	_____
g	Multiply line e by line f	g	_____
h	Enter the total dollar amount for line 7, line 8 and line 9 ...	h	_____
i	Subtract line g from line h. If zero or less, enter -0-	i	_____
j	Enter the number from the box on Form 540, line 10 (not the dollar amount)	j	_____
k	Multiply line e by line j	k	_____
l	Enter the dollar amount (that you filled in) from Form 540, line 10	l	_____
m	Subtract line k from line l. If zero or less, enter -0-	m	_____
n	Add line i and line m. Enter the result here and on Form 540, line 21	n	_____

Line 23 – Tax from Schedule G-1 and form FTB 5870A

Fill in the circle for and enter the amount of taxes from:

- Schedule G-1, Tax on Lump-Sum Distributions; and
- Form FTB 5870A, Tax on Accumulation Distribution of Trusts.

Step 6 — Special Credits and Nonrefundable Renter's Credit

A variety of California tax credits are available to reduce your tax if you qualify. To figure and claim most special credits, you must complete a separate form or schedule and attach it to your Form 540. The Credit Chart on the page 22 describes the credits and provides the name, credit code, and number of the required form or schedule. Many credits are limited to a certain percentage or a certain dollar amount. In addition, the total amount you may claim for all credits is limited by tentative minimum tax (TMT). Answer the following questions before you claim credits on your tax return.

1. Do you qualify to claim the nonrefundable renter's credit? Complete the qualification record on page 56.

Check ☐ **Yes** or ☐ **No**, then go to Question 2.

2. Are you claiming any other special credit listed on the Credit Chart on page 22?

No If you checked "Yes" for Question 1 and entered an amount on Form 540, line 31, go to line 33. If you checked "No" for Question 1, skip to the instructions for line 34.

Yes Figure your credit using the form, schedule, worksheet, or certificate identified in the Credit Chart. Then go to Box A to see if the total amount you may claim for all credits is limited by TMT. If you checked "Yes" for Question 1, be sure that you entered your nonrefundable renter's credit on line 31.

Box A – Did you complete federal Schedule C, D, E, or F and claim or receive any of the following:

- Accelerated depreciation in excess of straight-line;
- Intangible drilling costs;
- Depletion;
- Circulation expenditures;
- Research and experimental expenditures;
- Mining exploration/development costs;
- Amortization of pollution control facilities;
- Income/loss from tax shelter farm activities;
- Income/loss from passive activities;
- Income from long-term contracts using the percentage of completion method;
- Pass-through AMT adjustment from an estate or trust reported on Schedule K-1 (541); or
- Excluded gain on the sale of qualified small business stock

Yes You must complete Schedule P (540). See "Order Forms and Publications" on page 68.

No Go to Box B.

Box B – Did you claim or receive any of the following:

- Investment interest expense 226;
 - Income from incentive stock options in excess of the amount reported on your return 225;
 - Income from installment sales of certain property; or
- Note:** Net operating losses are suspended for two years 2002-2003.

Yes You must complete Schedule P (540). See "Order Forms and Publications" on page 68.

No Go to Box C.

Box C – If your filing status is: Is Form 540, line 17 more than:

Single or head of household	\$183,132
Married filing jointly or qualifying widow(er)	\$244,176
Married filing separately	\$122,087

Yes You must complete Schedule P (540). See "Order Forms and Publications" on page 68.

No Your credits are not limited. Go to the instructions for Form 540, line 28.

Line 28 through Line 30 – Additional Special Credits

Each credit has a code number. To claim only one or two credits, enter the credit name, code number, and amount of the credit on line 28 and line 29. To claim more than two credits, use Schedule P (540). See "Order Forms and Publications" on page 68. List two of the credits on line 28 and line 29. Enter the total of any remaining credits from Schedule P (540) on line 30.

Important: Attach Schedule P (540) and any supporting schedules or statements to your Form 540.

Carryovers: If you claim a credit with carryover provisions and the amount of the credit available this year exceeds your tax, you may carry over any excess credit to future years until the credit is used (unless the carryover period is a fixed number of years). If you claim a credit carryover for an expired credit, use form FTB 3540, Credit Carryover Summary, to figure the amount of the credit. Otherwise, enter the amount of the credit on Schedule P (540), Part III, and do not attach form FTB 3540.

Credit for Joint Custody Head of Household — Code 170

Note: You may not claim this credit if you used either the head of household or qualifying widow(er) filing status.

You may claim a credit if you were unmarried at the end of 2002 (or if married, you lived apart from your spouse for all of 2002 and you used the married filing separately filing status); and if you furnished more than one-half the household expenses for your home that also served as the main home of your child, step-child, or grandchild for at least 146 days but not more than 219 days of the taxable year. If the child is married, you must be entitled to claim a dependent exemption credit for the child.

Also, the custody arrangement for the child must be part of a decree of dissolution or separate maintenance or must be part of a written agreement between the parents where the proceedings have been initiated, but a decree of dissolution or separate maintenance has not yet been issued.

Use the worksheet below to figure the joint custody head of household credit.

1. Enter the amount from Form 540, line 24 1 _____
2. Enter the form FTB 5870A tax, if any,
included on Form 540, line 23 2 _____
3. Subtract line 2 from line 1 3 _____
4. Credit percentage — 30% 4 x .30
5. Credit amount. Multiply line 3 by line 4.
Enter the result or \$320, whichever is less 5 _____

Credit for Dependent Parent — Code 173

Note: You may not claim the credit for dependent parent if you used the single, head of household, qualifying widow(er) or married filing jointly filing status.

You may claim this credit only if:

- You were married at the end of 2002 and you used the married filing separately filing status;
- Your spouse was not a member of your household during the last six months of the year; and
- You furnished over one-half the household expenses for your dependent mother's or father's home, whether or not she or he lived in your home.

To figure the amount of this credit, use the worksheet above for the credit for joint custody head of household.

Credit for Senior Head of Household — Code 163

You may claim this credit if you:

- Were 65 years of age or older on December 31, 2002*;
- Qualified as a head of household in 2000 or 2001 by providing a household for a qualifying individual who died during 2000 or 2001; and
- Did not have adjusted gross income over \$51,941 for 2002.

*If your 65th birthday is on January 1, 2003, you are considered to be age 65 on December 31, 2002.

Note: If you meet all the conditions listed above, you do not need to qualify to use the head of household filing status for 2002 in order to claim this credit.

Use this worksheet to figure this credit.

1. Enter the amount from Form 540, line 19 1 _____
2. Credit percentage — 2% 2 x .02
3. Credit amount. Multiply line 1 by line 2.
Enter the result or \$979, whichever is less 3 _____

Credit for Child Adoption Costs — Code 197

For the year in which an order of adoption is entered, you may claim a credit for 50% of the cost of adopting a child who is a citizen or legal resident of the United States and who was in the custody of a California public agency or a California political subdivision. You may include the following costs if directly related to the adoption process:

- Fees of the Department of Social Services or a licensed adoption agency;
- Medical expenses not reimbursed by insurance; and
- Travel expenses for the adoptive family.

Note: Any deduction for the expenses used to claim this credit must be reduced by the amount of the child adoption costs credit claimed.

Use the worksheet below to figure this credit. If more than one adoption qualifies for this credit, complete a separate worksheet for each adoption. The maximum credit is limited to \$2,500 per minor child.

1. Enter qualifying costs for the child 1 _____
2. Credit percentage — 50% 2 x .50
3. Credit amount. Multiply line 1 by line 2.
Do not enter more than \$2,500 3 _____

Your allowable credit is limited to \$2,500 for 2002. You may carry over the excess credit to future years until the credit is used.

Line 31 — Nonrefundable renter's credit

Go to the instructions for "Step 6" on page 58.

Line 34 — Subtract the amount on line 33 from the amount on line 25. Enter the result on line 34. If the amount on line 33 is more than the amount on line 25, enter -0-. If you owe interest on deferred tax from installment obligations, include the additional tax, if any, in the amount you enter on line 34. Write "IRC Section 453 interest" or "IRC Section 453A interest" and the amount on the dotted line to the left of the amount on line 34.

Step 7 — Other Taxes

Attach the specific form or statement required for each entry in this step.

Line 35 — Alternative Minimum Tax (AMT)

If you claim certain types of deductions, exclusions, and credits, you may owe AMT if your total income is more than: \$65,114 if married filing jointly or qualifying widow(er); \$48,836 if single or head of household; or \$32,556 if married filing separately.

A child under age 14 may owe AMT if the sum of the amount on line 19 (taxable income) and any preference items listed on Schedule P (540) and included on the return is more than the sum of \$5,500 and the child's earned income.

AMT income does not include income, adjustments and items of tax preference related to any trade or business of a qualified taxpayer who has gross receipts, less returns and allowances, during the taxable year of less than \$1,000,000 from **all** trades or businesses.

Get Schedule P (540) for more information. See "Order Forms and Publications" on page 68.

Line 36 — Other Taxes and Credit Recapture

If you used form(s) FTB 3501, Employer Child Care Program/Contribution Credit; FTB 3535, Manufacturers' Investment Credit; FTB 3805P, Additional Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts; FTB 3805Z, Enterprise Zone Deduction and Credit Summary; FTB 3806, Los Angeles Revitalization Zone (LARZ) Deduction and Credit Summary; FTB 3807, Local Agency Military Base Recovery Area Deduction and Credit Summary; FTB 3808, Manufacturing Enhancement Area Credit Summary; or FTB 3809, Targeted Tax Area Deduction and Credit Summary; include the additional tax, if any, on line 36. Write the form number on the dotted line to the left of the amount on line 36.

Step 8 — Payments

Make sure you have your Form(s) W-2, W-2G, 1099-MISC, and 1099-R, and any other Form(s) 1099 showing California income tax withheld.

Line 38 — California Income Tax Withheld

Enter the total California income tax withheld from your:

- Form(s) W-2, box 17; • Form(s) 1099-MISC, box 16; or
- Form(s) W-2G, box 14; • Form(s) 1099-R, box 10.

Note: The Franchise Tax Board (FTB) verifies all withholding claimed from a Form W-2, W-2G, 1099-MISC or 1099-R with the Employment Development Department.

Caution: Do not include city or county tax withheld or tax withheld by other states.

If you also received Form(s) 1099 showing California income tax withheld ("backup withholding") on dividends and interest income, real estate sales, and partnership distributions, include the amount(s) withheld in the total on line 38 and attach a copy of Form(s) 1099 to your return.

Line 39 – 2002 CA Estimated Tax

Enter the total of any:

- California estimated tax payments you made using 2002 Form 540-ES;
- Overpayment from your 2001 California income tax return that you applied to your 2002 estimated tax;
- Payment you sent with form FTB 3519, Payment Voucher for Automatic Extension for Individuals; and
- California estimated tax payments made on your behalf by an estate, trust, or S Corporation on Schedule K-1 (541), Schedule K-1 (100S), or attach a copy of form FTB 3833 (Application for Transfer of S Corporation Overpayments to Shareholders.)

If you and your spouse paid joint estimated tax but are now filing separate income tax returns, either of you may claim all of the amount paid or you may each claim a part of it. Attach a statement, signed by you and your spouse, explaining how you want your payments divided. Show both social security numbers on your separate returns. If you or your spouse made separate estimated tax payments, but are now filing a joint income tax return, add the amounts you each paid. Attach a statement to the front of Form 540 explaining that payments were made under both social security numbers.

Line 41 – Excess California SDI (or VPD) Withheld

If California State Disability Insurance (SDI) or Voluntary Plan Disability Insurance (VPDI) was withheld from your wages by a single employer, at more than 0.9% of your gross wages, you may not claim excess SDI (or VPD) on your Form 540. Contact the employer for a refund.

You may be entitled to claim a credit for excess SDI (or VPD) only if you meet **all** of the following conditions:

- You had **two or more** employers during 2002;
- You received more than \$46,327 in wages; and
- The amounts of SDI (or VPD) withheld appear on your Forms W-2. Be sure to attach your Forms W-2 to your Form 540.

Follow the instructions below to figure the amount to enter on line 41.

Excess SDI (or VPD) Worksheet

Follow the instructions below to figure the amount of income tax to enter on Form 540, line 41. If you are married and file a joint return, you must figure the amount of excess SDI (or VPD) separately for each spouse.

	You	Your Spouse
1. Add amounts of SDI (or VPD) withheld shown on your Forms W-2. Enter the total here	1	
2. 2002 SDI (or VPD) limit	2	\$416.94 \$416.94
3. Excess SDI (or VPD) withheld. Subtract line 2 from line 1. Enter the result here and enter on Form 540, line 41	3	

Note: If zero or less, enter -0- on line 41.

Line 42 through line 45 – Child and Dependent Care Expenses Credit

You may be able to claim this credit if you paid someone to care for your child under the age of 13, other dependent who is physically or mentally incapable of caring for him or herself, or spouse if physically or mentally incapable of caring for him or herself. To claim this credit, your adjusted gross income must be less than or equal to \$100,000 and you must complete and attach form FTB 3506, Child and Dependent Care Expenses Credit, included in this booklet. Refer to Pub. 1025.

Line 42 and Line 43

Enter the qualifying person's social security number. Do not enter more than one qualifying person's social security number on line 42 or

line 43 from form FTB 3506, Part III, line 2. If you have more than two qualifying persons, see the instructions for form FTB 3506, Part III, line 2.

Line 44

Enter the credit allowed from form FTB 3506, Part III, line 8 (do not round this amount).

Line 45

Enter the credit allowed from form FTB 3506, Part III, line 12 (do not round this amount).

Note: If you received a refund for 2001, you may receive a Form 1099-G (Certain Government Payments). The refund amount reported on your Form 1099-G will be different from the amount shown on your tax return if you claimed the Child and Dependent Care Expenses Credit. This is because the credit is not part of the refund from withholdings or estimated tax payments.

Step 9 — Overpaid Tax or Tax Due

To avoid a delay in the processing of your return, be sure you enter the correct amounts on line 47 through line 50.

Line 47 – Overpaid Tax

If the amount on line 46 is more than the amount on line 37, your payments and credits are more than your tax. Subtract the amount on line 37 from the amount on line 46. Enter the result on line 47.

Line 48 – Amount You Want Applied to Your 2003 Estimated Tax

You may apply all or part of the amount on line 47 to your estimated tax for 2003. Enter on line 48 the amount of line 47 that you want applied to 2003.

Line 49 – Overpaid Tax Available This Year

If you entered an amount on line 48, subtract it from the amount on line 47. Enter the result on line 49. You may choose to have this entire amount refunded to you or you may make contributions to the California Seniors Special Fund or make other voluntary contributions from this amount. If you make a contribution, skip line 50 and go to Step 10.

Line 50 – Tax Due

If the amount on line 46 is less than the amount on line 37, subtract the amount on line 46 from the amount on line 37. Enter the result on line 50. Your tax is more than your payments and credits.

There is a penalty for not paying enough tax during the year. You may have to pay a penalty if:

- The tax due on line 50 is \$200 or more (\$100 or more if married filing separately); and
- The amount of state income tax withheld on line 38 is less than 90% of the amount of your total tax on line 37.

If you owe a penalty, the Franchise Tax Board will figure the penalty and send you a bill.

Step 10 — Contributions

You may make contributions to the funds listed on Form 540, Side 2, Step 10. See page 23 for a description of the funds.

Step 11 — Refund or Amount You Owe

Be sure to add or subtract correctly to figure the amount of your refund or the amount you owe.

Line 65 – Refund or No Amount Due

If you did not enter an amount on line 64, enter the amount from line 49 on line 65. This is the amount that will be refunded to you. If it is less than \$1, you must attach a written statement to your Form 540 requesting the refund.

If you entered an amount on line 64, subtract the amount on line 64 from the amount on line 49. If the result is zero or more, enter it on line 65.

To have your refund directly deposited into your bank account, fill in the account information on the tax return. See the illustration on page 14 for the correct numbers to transfer to your return.

If the result is less than zero, your contributions are more than your overpaid tax available on line 49. In this case, do not enter an amount on line 65. Instead, subtract the amount on line 49 from the amount on line 64. Enter the result on line 66 and see the instructions for line 66.

Want a fast refund? Get your refund in 10 days or less when you e-file your return. Visit our Website at www.ftb.ca.gov for more information.

Line 66 – Amount You Owe

If you did not enter an amount on line 64, enter the amount from line 50 on line 66. This is the amount you owe with your Form 540, before interest and penalties.

If you entered an amount on line 64, add that amount to the amount on line 50. Enter the result on line 66. This is the amount you owe with your Form 540, before interest and penalties.

To avoid a late filing penalty, file your Form 540 by the extended due date even if you cannot pay the amount you owe.

Do not combine your 2002 tax payment and any 2003 estimated tax payment in the same check. Prepare two separate checks and mail each in a separate envelope.

Paying by Check or Money Order – See page 8, Helpful Hints, “Attachments to your return.”

Other Payment Options

- **Electronic Funds Withdrawal** – Instead of paying by check you can use this convenient option if you e-file. Simply provide your bank information, amount you want to pay, and the date you want the balance due to be withdrawn from your account. Your tax preparation software will offer this option.
- **Credit Card** – You may use your Discover/NOVUS, Mastercard, Visa, or American Express card to pay your tax. If you pay by credit card, do not mail form FTB 3519 to us. Call (800) 272-9829 or visit our Website at www.officialpayments.com, and use the jurisdiction code 1555. Official Payments Corp. charges a convenience fee for using this service.

Paying by Credit Card – Whether you e-file or file by mail, you can use your Discover/Novus, Mastercard, Visa, or American Express card to pay your personal income taxes (tax return balance due, extension payment, estimated tax payment, or tax due with bill notice). **There is a convenience fee for this service.** This fee is paid directly to Official Payments Corp. based on the amount of your tax payment.

Convenience Fee

- 2.5% of the tax amount charged (rounded to the nearest cent)
- Minimum fee: \$1

Example:

Tax Payment = \$753.56 Convenience Fee = \$18.84

When will my payments be effective?

Your payment is effective on the date you charge it.

What if I change my mind?

If you pay your tax liability by credit card and later reverse the credit card transaction, you may be subject to penalties, interest, and other fees imposed by the Franchise Tax Board for nonpayment or late payment of your tax liability.

How do I use my credit card to pay my income tax bill?

Once you have determined the type of payment and how much you owe, you should have the following information ready:

- Your Discover/Novus, Mastercard, Visa, or American Express card
- Credit card number
- Expiration date
- Amount you are paying
- Your and your spouses' SSN
- First 4 letters of your and your spouses' last name

- Tax year
- Home phone number (including area code)
- ZIP Code for address where your monthly credit card bill is sent
- FTB Jurisdiction Code: 1555

Go to the Official Payments Corp. Website

(www.officialpayments.com) and select Payment Center, or use the toll free number at (800) 2PAY-TAX or (800) 272-9829. Follow the recorded instructions. Official Payments Corp. will tell you the convenience fee before you complete your transaction. You can decide whether to complete the transaction at that time.

Payment Date : _____

Confirmation Number: _____

If you cannot pay the full amount shown on line 69 with your return, you may request approval to make monthly payments.

Step 12 — Interest and Penalties

If you file your return or pay your tax after the due date, you may owe interest and penalties on the tax due.

Note: Do not reduce the amount on line 47 or increase the amount on line 50 by any penalty or interest amounts. Enter on line 67 the amount of interest and penalties.

Line 67 – Interest and Penalties

Interest. Interest will be charged on any late filing or late payment penalty from the original due date of the return to the date paid. In addition, if other penalties are not paid within 15 days, interest will be charged from the date of the billing notice until the date of payment. Interest compounds daily and the interest rate is adjusted twice a year.

Late Filing of Return. The maximum total penalty is 25% of the tax not paid if the return is filed after October 15, 2003. The minimum penalty for filing a return more than 60 days late is \$100 or 100% of the balance due, whichever is less.

Late Payment of Tax. The penalty is 5% of the tax not paid when due plus 1/2% for each month, or part of a month, the tax remains unpaid.

Other Penalties. There are also other penalties that can be imposed for a check returned for insufficient funds, negligence, substantial understatement of tax and fraud.

Line 68 – Underpayment of Estimated Tax

If line 50 is \$200 (\$100 if married filing separately) or more **and** more than 20% of the tax shown on line 34 (excluding the tax on lump-sum distributions on line 23), **or** you underpaid your 2002 estimated tax liability for any payment period, you may owe a penalty. The Franchise Tax Board can figure the penalty for you when you file your return and send you a bill. Or to see if you owe a penalty and to figure the amount of the penalty, get form FTB 5805, Underpayment of Estimated Tax by Individuals and Fiduciaries (or form FTB 5805F, Underpayment of Estimated Tax by Farmers and Fishermen). If you complete one of these forms, be sure to attach it to the front of your Form 540 on top of any check, money order, Form(s) W-2, Form(s) 1099, or special documentation. Enter the amount of the penalty on line 68 and fill in the correct circle on line 68. You must complete and attach the form if you claim a waiver, use the annualized income installment method, or pay tax according to the schedule for farmers and fishermen, even if you do not owe a penalty.

See page 2, “Important due dates,” for more information on estimated tax payments and how to avoid the underpayment penalty.

See the instructions for line 69 for information about figuring your payment, if any.

Line 69 – Total Amount Due

Is there an amount on line 66?

Yes Add line 66, line 67, and line 68. Enter the result and make your check or money order for this amount.

No Go to the next question.

Is there an amount on line 65?

Yes Add line 67 and line 68. If the result is:

- Less than line 65, your refund will be reduced by this amount when your return is processed. Do not enter an amount on line 69.
- More than line 65, subtract line 65 from the sum of line 67 and line 68 and enter the result. Make your check or money order for this amount.

No Add line 67 and line 68 and enter the result.

Line 70 – 2003 Tax Forms

If your Form 540 is prepared by someone else, or if you do not need forms mailed to you next year, fill in the circle on line 70.

Step 13 — Direct Deposit (Refund Only)

It's fast, safe, and convenient to have your refund directly deposited into your bank account. For further information, see page 13, Step 8.

Direct Deposit of Refund

Direct deposit is fast, safe, and convenient. To have your refund directly deposited into your bank account, fill in the account information on Form 540, Side 2, Step 13. Please be sure to fill all three boxes. **Do not** attach a voided check or deposit slip. See the illustration on page 14.

The illustration on page 14 shows which bank numbers to transfer to the preprinted boxes on Form 540, Side 2, Step 13.



Do not use a deposit slip to find the bank numbers. Contact your financial institution for assistance in getting the correct routing number.

The Franchise Tax Board is not responsible when a financial institution rejects a direct deposit. If the bank or financial institution rejects the direct deposit due to an error in the routing number, the Franchise Tax Board will issue a paper check.

Sign Your Return

You must sign your return in the space provided on Side 2. If you file a joint return, your spouse must sign it also. See page 8 "Helpful Hints," for more information on verifying and checking information on your return, attachments to your return, and assembling and mailing your return.

Joint Return. If you file a joint return, both you and your spouse are generally responsible for the tax and any interest or penalties due on the return. This means that if one spouse does not pay the tax due, the other may have to. See "Innocent Spouse Relief," on page 60.

For information about Power of Attorney, visit our Website at:

www.ftb.ca.gov